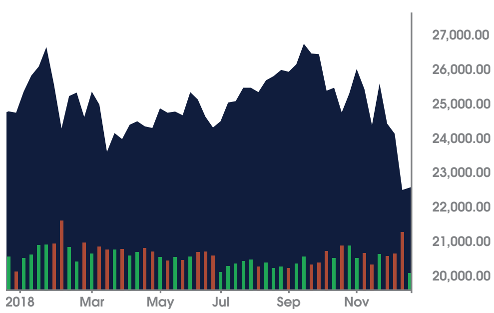
brightstart
529 College Savings

SAVING FOR COLLEGE DURING DOWN MARKETS

Erratic stock and bond activity over the past number of weeks has reminded us all how quickly markets can go from upswings to downturns. Have you been eager to react to this recent activity? During times like these it's important to remain calm.

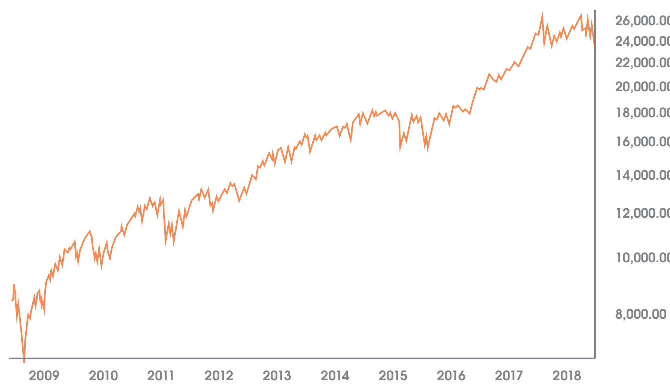
Focus on the Long-Term: When making investments, the only certainty is that markets will be volatile. The past few years (and even early in 2018), markets have dipped only to turn around. Staying the course can be difficult, especially during chaotic news cycles, but recent history has shown us that the long-term trends of markets have been positive.

Dow Jones Industrial Average YTD through December 26, 2018



Source: Yahoo! Finance – Dow Jones Industrial Average. December 27, 2018

Even after the nearly unprecedented market downturn of 2008, 401(k) and 529 college savings investors saw their accounts recover.



Source: https://www.macrotrends.net/1319/dow-jones-100-year-historical-chart

Consider Saving More: The beginning of the year is a great time to up your contribution to save for rising college costs (an economic trend that, unlike a market downtown, will not reverse course). You can't control stock and bond market activity, but you can control how much you save.

As we start a new year, remember to match your risk tolerance with your investing style, and stay the course. Market downturns can be hard on investors. But those that focus on the big picture can be rewarded in the long term.

If you'd like assistance determining what type of investor you might be, take our Risk Tolerance Questionnaire on the Bright Start website under the "Calculate" menu bar.

As you're reviewing your investments, consider the following strategies as defined by the U.S. Securities and Exchange Commission.

ASSET ALLOCATION

Asset allocation involves dividing your investments among different assets, such as stocks, bonds, and cash. The asset allocation decision is a personal one. The allocation that works best for you changes at different times in your life, depending on how long you have to invest and your ability to tolerate risk.

Factors to consider include your:

Time Horizon. Your time horizon is the number of months, years, or decades you need to invest to achieve your financial goal. Investors with a longer time horizon may feel comfortable taking on riskier or more volatile investments. Those with a shorter time horizon may prefer to take on less risk.

Risk Tolerance. Risk tolerance is your ability and willingness to lose some or all of your original investment in exchange for potentially greater returns.

WHAT IS DIVERSIFICATION?

The practice of spreading money among different investments to reduce risk is known as diversification. Diversification is a strategy that can be neatly summed up as "Don't put all your eggs in one basket."

One way to diversify is to allocate your investments among different kinds of assets. Historically, stocks, bonds, and cash have not moved up and down at the same time. Factors that may cause one asset class to perform poorly may improve returns for another asset class. People invest in various asset classes in the hope that if one is losing money, the others make up for those losses.

You'll also be better diversified if you spread your investments within each asset class. That means holding a number of different stocks or bonds, and investing in different industry sectors, such as consumer goods, health care, and technology. That way, if one sector is doing poorly, you may offset it with other holdings in sectors that are doing well.

Some investors find it easier to diversify by owning mutual funds. A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, and other financial products. Mutual funds make it easy for investors to own a small portion of many investments. A total stock market index fund, for example, owns stock in thousands of companies, providing a lot of diversification for one investment.

CREDIT: https://www.investor.gov/research-before-you-invest/research/asset-allocation